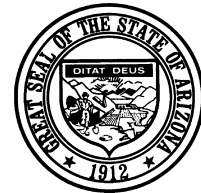


ARIZONA TAX NEWS



Janet Napolitano, Governor

J. Elliott Hibbs, Director

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E-Mail Your Questions

If you have a question that you cannot find the answer to, our Technical Assistance personnel may prove useful to you. We will gladly respond to any e-mail technical tax inquiry. All inquiries will be responded to within two working days.

E-mail your question to:
TaxpayerAssistance@revenue.state.az.us

In the interest of maintaining confidentiality, DOR cannot respond to inquiries that include a Social Security number, FEIN, TPT or W/H number, or other specific taxpayer identifiers.

HIBBS NAMED DIRECTOR

J. Elliott Hibbs was appointed by Governor Janet Napolitano in January 2003 to serve as the Director of the Arizona Department of Revenue. Prior to this appointment he served from September 1997 to December 2002 as the Director of the Arizona Department of Administration (ADOA) and Cabinet Agency Operations Director for Governor Hull.

Hibbs moved to Arizona in 1980, when he was recruited by then Governor Bruce Babbitt to be the Director of the Arizona Department of Revenue. He served in this position for seven years. Prior to this, he spent over nine years with the Iowa Department of Revenue, the last four and one-half years as Deputy Director. During his time in Arizona state government, Hibbs also served in a series of state positions, including: Fiscal Advisor to Governor

Symington; Director of the Department of Administration from March 1992 to January 1995; Deputy Director of the Department of Economic Security; and, Chief of Staff for Operations at the Arizona State Senate. He also served for three years as executive director of the Arizona Tax Research Association, a government watchdog group, in the late '80's.

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EFILE QUICK REFERENCE

It's February and that means the income tax season is in full swing. This year you will find more clients wanting their returns e-filed so that they can get their refund faster. But, here you are new to e-file and you have questions that need answers now! Or maybe you're a practitioner, who has offered e-file for years, but wonder what's new and have questions too. Here are some of the most frequently asked questions about e-file during the tax season.

How can I get a copy of the Arizona e-file manual?

The Arizona E-File Technical Manual – AZ 1345 can be found on the department's website at www.revenue.state.az.us in the Electronic Services - Tax Professional category.

What do I do with the AZ 8453?

Last year Arizona lifted the requirement to mail the AZ 8453 to the Arizona Department of Revenue. The ERO/ERP

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*** REMINDER ***

FOR NON-EFT TPT FILERS

To avoid a delinquency, postmark your
January 2003 TPT return no later than
February 25, 2003 or deliver to DOR no later
than February 27, 2003.

November Summary of General Fund Revenues

	November 2002	Fiscal Year Total
Individual Income Tax		
Net Collections	\$154,831,503	\$772,159,595
Percent Change *	3.8%	(5.3%)
Corporate Income Tax		
Net Collections	(\$3,441,275)	\$113,517,560
Percent Change *	85.8%	(2.3%)
Transaction Privilege, Severance & Use Taxes		
Net Collections	\$246,764,506	\$1,240,434,899
Percent Change *	(0.2%)	1.1%
Total Big Three Tax Types		
Net Collections	\$398,154,734	\$2,126,112,054
Percent Change *	7.0%	(1.5%)

() Decrease from same month last year.

* Percent change from same month last year.

Individual Income Tax Individual Income Tax Receipts

	November 2002	November 2001	% Change
Gross Collections	\$6,765,849	\$7,867,982	(14.0)
Withholding	195,524,645	195,858,874	(0.2)
Refunds	(11,579,070)	(19,343,519)	(40.1)
Urban Rev Sharing	(35,879,921)	(35,156,381)	2.1
Net Collections	\$154,831,503	\$149,226,956	3.8
			%
Fiscal Year Total	(02/03)	(01/02)	Change
Gross Collections	\$116,244,376	\$131,508,468	(11.6)
Withholding	922,013,253	957,626,673	(3.7)
Refunds	(86,698,429)	(98,065,931)	(11.6)
Urban Rev Sharing	(179,399,605)	(175,781,905)	2.1
Net Collections	\$772,159,595	\$815,287,304	(5.3)

Included in the refund amounts above are refunds relating to the alternative fuel vehicle income tax credit. After offsetting \$39,869 in tax liability, refunds for this credit totaled \$203,725. This amount does not include withholding and estimated payments returned to taxpayers because their liability was covered by the alternative fuel vehicle credit.

TAX CALENDAR

FEBRUARY 2003

Due Date		For Period Ending
17	State Holiday - President's Day All State offices closed	
18	Income Tax Returns:	10/31/02
	Form 120: Corporation	
	Form 140: Individual	
	Form 141: Fiduciary	
	Form 165: Partnership	
18	Form 120: Corporation with Automatic Extension	4/30/02
18	Form 120S: S Corporation	11/30/02
18	Exempt Organizations	
	Form 99: Annual Information Return	9/30/02
	Form 99T: Unrelated Business Income	9/30/02
	Form 120ES: Estimated Tax Payment, Corporation	
	First Installment	10/31/03
	Second Installment	8/31/03
	Third Installment	5/31/03
	Fourth Installment	2/28/03
20	Form TPT-1: Transaction Privilege Tax:	
	January Monthly Filers	1/31/03
20	Bingo: Financial Reports	1/31/03
20	Luxury Tax: Various Forms	1/31/03
25	EFT Form TPT-1 and Payment:	
	Transaction Privilege Tax:	
	January Monthly Filers	1/31/03
28	Withholding Tax: Form A-1R	12/31/02
	Withholding Tax: Form A1-APR	12/31/02

Withholding Tax Payment Information:

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits.

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

The Arizona Tax News is a monthly publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in an alternative format upon request. Subscription information may be obtained from the Publications Unit at (602) 542-4672 or toll free from area codes 520 & 928, 1-877-863-0655.

BRITS UPDATE—COMPLIANCE DATA WAREHOUSE

One of the major tools coming from the BRITS project is the Compliance Data Warehouse. This database is the one that will be used to assist auditors with audit selection and decision support. It will include financial and demographic information about individuals and businesses, both inside and outside of Arizona. Because of the extensive amount of taxpayer data available, this feature of the Integrated Tax System (ITS) will level

the playing field in the discovery activities of the audit function. And as with other functions in the new ITS, the Department will have a more comprehensive view of our taxpayers. This will also help the agency in marketing tax products, like E-file and on-line registration, as well as taxpayer education services, to those who would most benefit from them.

CHANGE IN TOWN TAX CODE—QUEEN CREEK EFFECTIVE MARCH 1, 2003

The Mayor and Town Council of the Town of Queen Creek passed ordinance 230-02. Ordinance 230-02 increases the Queen Creek Town Privilege Tax from 1% to 2%. The tax rate increase affects the following classifications:

Amusements; Jet Fuel Sales; Job printing; Manufactured buildings; Timbering & other extraction; Mining; Publishing; Hotels; Rental of real property; Rental of tangible personal property; Restaurants and Bars; Retail sales; Telecommunications; Transporting for hire; Utilities and Use Tax.

Ordinance 230-02 increases the **Tax on Construction Contracting** from 1% to 3%. The Tax on Construction Contracting shall be reported using **QC4**.

This increase imposed by this ordinance shall not apply to contracts entered into prior to the effective date of the ordinance. **Pre-existing contracts** should be reported using **CODE QC9** at a rate of **1%**.

Hibbs Named Director

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Hibbs has served over 28 years in state government promoting efficiency and effectiveness. Throughout his public sector career, he has involved employees in continuous improvement of government service delivery and worked toward implementing results-oriented management practices with an emphasis on customer satisfaction, performance measurement, and recognition of the outstanding efforts of state employees.

He holds a Bachelor's Degree from Grinnell College and a Masters in Business Administration from the University of Iowa. He and his wife Mary live in Chandler.

Mr. Hibbs assumed the duties of Director on January 6, 2003.

Efile Quick Reference

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(or taxpayer when filing from a PC) must retain the signed AZ 8453 for a period of four years after transmitting the return. The AZ 8453 or AZ 8453 OL must be mailed to the Department **only** when either of the following exists:

1. The taxpayer is filing a credit for taxes paid to another state or country (Credit 309). A copy of the other state's return is to be attached to the AZ 8453 or AZ 8453 OL and mailed to the Department.
2. The ERO/ERP office is a VITA or TCE site. The AZ 8453 and all attachments must be mailed to the Department.

In addition, the department urges the ERO/ERP to obtain original taxpayer signatures on two AZ 8453s. The first for submission to the DOR, when submission is required (such as filing a 309 credit), and the second to be maintained by the ERO/ERP. This will eliminate the need to contact the taxpayer and obtain signatures should the first AZ 8453 become "lost" or the state return rejects or a paper return is subsequently required. When submitting the AZ 8453, attach all other documents that make up the non-electronic portion of the return to the back of Form AZ 8453. These include:

1. The State copy of all W-2 and 1099 Forms identifying Arizona Tax Withheld;
2. Informational documents and worksheets included by the taxpayer as supporting material; and
3. A copy of the first and second page of the Arizona Return when a paid preparer, *other than the ERO/ERP*, prepares and signs the return,

Does Arizona accept electronic signatures on an e-filed return?

Yes, When a taxpayer elects to participate in the federal electronic signature program and self selects a PIN, they may also elect to utilize the same signature authentication for their state return. When doing so, each taxpayer must personally enter their election. In addition, the ERO/ERP must electronically stipulate they are using their ERO federal signature for the state return. The Electronic Signature is not an option when:

1. When the Form AZ 8453 is required to transmit attachments to the Arizona Department of Revenue.
2. Transmitting a state only return.

What, if anything, do I need to retain in my records after a client's return is e-filed?

The ERO/ERP is required to retain the signed form AZ 8453, the e-file Signature Authorization as well as a copy of the completed return, attachments and all materials for four years from the date that the return was filed. It is also the obligation of the ERO/ERP to provide the taxpayer with completed copies of the signed form AZ 8453, its attachments, the e-file Signature Authorization form, a hardcopy of the Arizona Tax Return and its supporting worksheets/schedules. The taxpayer is to be advised of the importance to retain copies of all related materials.

I have not received an acknowledgement for returns I e-filed to Arizona?

The absence of the state acknowledgement within a reasonable period (48-72 hours after receiving the IRS acknowledgment) indicates that a failed transmission may have occurred. To determine if a transmission has failed, contact your transmitter. If the transmission has failed, the Arizona return can be retransmitted (e-filed) as a state-only return. If the Arizona transmission has been successful, but you have not received an acknowledgement, please contact your transmitter. The transmitter is responsible for providing the Arizona acknowledgement. These steps should be taken prior to contacting the Arizona Office of E-file about the lack of an acknowledgement. You may contact the Office of E-file via their email address at efile@revenue.state.az.us

What happens if my client's Arizona return rejects?

New for efilng season 2003! Arizona will reject the state return when the data transmitted is improperly formatted to the point accurate processing of the return cannot be accomplished. When this occurs, you will receive an acknowledgement from the State informing you that your return was rejected and the reason why. When the return has been corrected, it may be re-transmitted as a state only return. Be sure to confirm that your software package supports state only transmissions. Otherwise the corrected Arizona return must be submitted to the department on a paper return.

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ELECTRONIC UPDATE PROGRAM

Another feature of the website provides you with the latest updates and information via e-mail. This program will provide the participants with such items as the Tax Facts, News Releases, Procedures, Rulings, etc. as soon as they are released.

How do I participate in the program?

To participate you will need to provide your name, company name and e-mail address.

Is there a cost or subscription fee for this service?

No. This service is being provided at no charge for our Tax Professional partners.

Will my e-mail address be released or sold to other agencies or companies?

No. When the Department receives information

from visitors to its web site through e-mail or another means provided by the web site, the information is treated and used in the same manner as information that is received through the U.S. Mail or by telephone and is subject to the same protection and guidelines for non-disclosure of that information. The Department will make every reasonable effort to maintain the confidentiality of this information subject to state law and regulation.

How do I sign up?

Send an email to JaegerJ@revenue.state.az.us. Be sure to include your name, company name and e-mail address in the body of the message and "ADOR Update Program" in the Subject line.

PRACTITIONER SERVICES

Telephone numbers established as Tax Practitioner Hotlines are **(602) 542-2132** for income tax and **(602) 542-2054** for transaction privilege and withholding tax. A staff member is assigned to each of these lines on a permanent basis. Their primary duty is to respond to the practitioner, including any research required to provide the tax information requested. The hotlines are available from 8:00 a.m. to 5:00 p.m. Monday through Friday.

Taxpayer Information and Assistance's fax number is **(602) 542-2072**. You may use this feature to transmit inquiries, provide information requested to support your inquiry or to provide the department with a power of attorney from your client. The Arizona Department of Revenue does not accept filing a tax return by fax.

Efile Quick Reference

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Can I e-file the Arizona return without the IRS return?

IRS is providing the ability for an ERO/ERP or individual to transmit/retransmit a state return through the fed/state system without simultaneously transmitting a federal return. There will be no differences in the transmission sequence. State only returns are transmitted to IRS, validated and made available for states to download in the same fashion as with the

traditional fed/state transmission. The taxpayer's federal return must be completed, transmitted and accepted by IRS before transmitting/re-transmitting a state only return.

NOTE: Not all software packages may support state only return transmissions. Before committing to a state only transmission, verify that your software supports the service.

The answer to all these questions and more can be contained on our website at: www.revenue.state.az.us/e_services/taxpro.htm



DEPARTMENT OF REVENUE FORMS AND TAX INFORMATION 2002 CD AVAILABLE

COST: \$15 EACH

Includes:

- Arizona tax forms and instructions from 1995 – 2002
- Department of Revenue Tax Rulings
- Department of Revenue Tax Procedures
- Department of Revenue Private Taxpayer Rulings
- Arizona Department of Revenue Annual Report 2002
- Arizona E-File Manual
- Guide to Arizona Licensing

Also Includes:

- Internal Revenue Service forms & instructions for 2002

To order, call or write to:
Arizona Department of Revenue
License and Registration
1600 W Monroe
Phoenix, Arizona 85038
Telephone Number 602-542-1981
(make your check payable to
Arizona Department of Revenue)